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Models slowly but surely gaining ground with advisors, Cerulli says
By Rob Burgess
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A larger percentage of advisor practices than ever are using models, but there is much work to be done for wide adoption to take hold.

That was among the findings presented during a recent webinar by Cerulli Associates, "Financial Planning, Investment Outsourcing, and 2025 Trends to Watch."

According to Cerulli's data, which collects and processes over 2,000 financial advisor survey responses on an annual basis, one area of change over the past three years is the percentage of advisor-managed assets controlled by outsourcer practices, which is now at 13% compared to 9% in 2021. These include advisor practices that currently use models suggested by a broker-dealer, advisory turnkey asset management platform (TAMPs), asset manager or third-party strategist provider without modification.

"Model providers are probably interested in hearing about why some advisors are resistant to implementing models," said Matt Apkarian, associate director of product development.

A total of 21% of advisor practices currently primarily rely on external models like outsourcers, but they make modifications to fit client needs or practice preferences.

"There's still a lot of education to happen to get a lot of advisors in the industry that may still think that there is not enough product in the marketplace that can target the unique needs of advisors, and that's a boots-on-the-ground sort of effort," said Andrew Blake, Cerulli associate director of wealth management. "The fact of the matter is, advisors don't go to marketplaces to shop for models. They go to marketplaces to implement models. So the way that advisors are going to find out about the unique situations that your model products can target is by you getting in their office and telling them about what you have to offer."

The remaining two-thirds, 66%, of advisor practices either customize portfolios on a client-by-client basis or they are using practice-level resources to build a series of custom models for their clients.

"More and more practices are finding ways to extend the portion of the book that it gets allocated to models and finding ways to implement models without negatively affecting the client experience, or even creating a better client experience," said Blake. "We expect that trend to continue."

Firms that use models spend less time on investing and more time with clients. On average, outsources spend 6.6% less time investing, 2% less time on administrative tasks, 6.9% more time with clients and 1.5% more time on development than insourcers.

In addition, outsourcer practices serve on average 33% more clients per producer than insourcers. As a result, all segments of advisor-reported portfolio construction styles expect to increase the use of models.

Advisors are tasked with evolving their practices to address their biggest challenges. Advisors reported these as acquiring new clients (56%), compliance and regulatory responsibilities (40%) and managing technology needs (31%), among others.

When it comes to business development strategies, referrals and events are the most effective ways to uncover new business, according to Cerulli's data. Among the techniques that advisors report as being "very effective" include strategic alliances with other professionals including accountants and attorneys (73%), intimate social events for top clients and prospects (73%) and asking for referrals in person or in writing (67%). In addition, simply expressing gratitude can generate repeat referrals, with 80% of respondents reporting this technique as being "very effective."

The asset market share of the largest practices continues to grow, with Cerulli counting 11,438 such firms. These so-called mega-practices have assets under management (AUM) greater than or equal to $500 million. While they take up just 16.1% of the total amount of practices, they account for over two-thirds, 67.1%, of the total advisor-managed AUM. These mega-practices have an average of $1.65 billion in AUM, 8.5 advisors per practice and $193.6 million in AUM per advisor. Around half are interested in an acquisition.

Unsurprisingly, the mega-practices offer more financial planning services than the average. These areas include basic services like retirement accumulation planning, insurance, education funding, cash management or budgeting and intergenerational planning. The mega-practices also consistently offer more advanced planning services than usual, including estate planning, charitable planning, tax planning, trust services, private banking and concierge and lifestyle services.

"They're working with more high net worth clients," said Blake. "They tend to offer more services. They're more likely to have specialized staff such as compliance or marketing."